

Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

OMB-01 IGA-02 L-03 H-02 PA-03 PRS-01 USIA-12 SS-15

NSC-10 RSR-01 /126 W

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R 221011 Z MAY 73

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 9790

INFO AMEMBASSY ISLAMABAD

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E. O. 11652: N/ A

TAGS: EFIN, EAID, BG, PK

SUBJECT: DEBT ISSUE - CONSORTIUM SOFTENING SEEN IN PRESS REPORT

1. ENGLISH- LANGUAGE WEEKLY " WAVE" MAY 19 CARRIED STORY ENTITLED " AID HOPES UP" WHICH IN REPORTAGE PAST DEVELOPMENTS APPEARS DERIVED FROM BDG SOURCES. ARTICLE SUGGEST CONSORTIUM POSITION ON BD ASSUMPTION DEBT LIABILITY IS SOFTENING AND DIMENSIONS ORIGINAL FIVE YEAR PLAN NOW ARE TO BE RESTORED. TONE OF ACCOUNT IS TYPICALLY ANTI- FOREIGN AID.

2. TEXT OF ARTICLE AS FOLLOWS:

A. BANGLADESH IS GOING TO GET " MODERATE" TO " SUFFICIENT" AMOUNT OF WORLD BANK (READ CONSORTIUM) AID TO FINANCE LAUNCHING OF HER FIRST FIVE YEAR PLAN. THERE IS NO FORMAL COMMITMENT SO FAR, BUT HOPE OF GETTING WESTERN AID - WHICH HAS BEEN AT LOW EBB FOR SOMETIME - HAS GONE HIGH FOLLOWING SOME DEVELOPMENTS DURING LAST TWO WEEKS.

B. ACCORDING TO USUALLY INFORMED SOURCES, WORLD BANK CHIEF ROBERT MCNAMERA HAS ASKED A MEETING OF BANK TO BE CONVENED

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TOWARDS END OF THIS MONTH - POSSIBLY ON MAY 30 - TO UNDERTAKE PRELIMINARY DELIBERATIONS FOR EVENTUAL AID- TO- BANGLADESH CONSORTIUM. IT WOULD NOT BE TOTALLY UNEXPECTED IF THIS MEETING SHOULD REACH AN UNOFFICIAL SORT OF UNDERSTANDING AS TO PRINCIPLES AND QUANTUM OF AID TO BE COMMITTED TO BANGLADESH FOR FIRST YEAR OF PLAN, TO BE LAUNCHED IN JULY THIS YEAR.

C. ONE INDICATION OF THIS SOMEWHAT SUDDEN AND OUT- OF- THE- WAY DEVELOPMENT- FOR EVEN A FORTNIGHT AGO, WESTERN DIPLOMATS IN DACCA WERE WEARING A STONY FACE ON QUESTION OF FINANCING BANGLADESH ON REGULAR BASIS - IS THAT PLANNING COMMISSION HAS BEEN GIVEN GO- AHEAD SIGNAL FOR FORMULATION OF PLAN SO AS TO BE AVAILABLE FOR LAUNCHING ON SCHEDULE. PLAN ACCORDING TO TENTATIVE FRAMEWORK ANNOUNCED SOMETIME BACK ENVISAGED A FOREIGN AID APPROPRIATION OF \$600 MILLION IN FIRST YEAR OF THE OPERATION.

D. HITCH ABOUT THE THING DEVELOPED IN MARCH THIS YEAR WHEN AT INTERNATIONAL CONFERENCE HELD IN DACCA OF POSSIBLE DONOR COUNTRIES, DEMANDS WERE MADE BY VISITING EXPERTS THAT BANGLADESH SHOULD FIRST ACCEPT " IN PRINCIPLE" LIABILITY OF A PART OF DEBT THAT NOW RESTS WITH PAKISTAN ON ACCOUNT OF AID RECEIVED FROM WORLD BANK IN PAST. BANGLADESH, HOWEVER, DECLINED TO ACCEPT ANY LIABILITY BEYOND LOANS RECEIVED IN HER CURRENT ONGOING PROJECTS, ON GROUND THAT PAKISTAN, WHICH STILL DID NOT RECOGNIZE BANGLADESH, HAD NO VALID LEGAL GROUND TO PASS A PART OF LIABILITY ON HER. BESIDES, QUESTION OF DISTRIBUTION OF ASSETS AND LIABILITY BETWEEN TWO COUNTRIES TILL REMAINS UNSETTLED. THIS POSITION LED TO CONFERENCE ENDING WITHOUT EVEN UNOFFICIAL ASSURANCE OF ANY AID FOR FORTHCOMING PLAN.

E. SAME POSITION WAS MAINTAINED BY MR. CARGILL OF WORLD BANK, FOLLOWED BY MR. KENNETH RUSH AND JOSEPH SISCO, WHEN THEY MET PRIME MINISTER, AND IT SOON BECAME APPARENT THAT AMERICANS, WHO WERE MAIN DONOR COUNTRY- TO- BE, WERE MAKING USE OF AID LEVER TO FULLEST ADVANTAGE OF PAKISTAN, OSTENSIBLY TO EXTRICATE PAKISTAN FROM A TROUBLE WHICH IS LARGER THAN IT ORDINARILY WOULD APPEAR TO BE. QUESTION OF LOAD OF DEBT APART, PAKISTAN IS IN DESPERATE NEED TO SETTLE QUESTION AND PRINCIPLE OF DEBT REPAYMENT, IN ORDER TO KEEP FLOW OF AID UNINTERRUPTED.

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F. IT IS IN WAKE OF THIS DEADLOCK IN DIALOGUE WITH WESTERN AID GIVERS THAT BDG DECIDED TO HAVE A PARALLEL PLAN OF REDUCED SIZE TO MEET EVENTUALITIES OF NON- RECEIPT OF WESTERN AID. PLANNING COMMISSION WAS ABOUT SET TO UNDERTAKE THE TASK WHEN, HOWEVER, HAS COME MESSAGE TO GO AHEAD WITH ORIGINAL PLAN WITH MINOR ADJUSTMENTS, MOSTLY OF TECHNICAL

NATURE.

G. WHAT LED TO SUDDEN LIBERALISATION OF SITUATION OR RE-THINKING ON PART OF AMERICANS IS NOT CLEAR YET. THERE IS NO INDICATION SO FAR THAT BDG HAVE GIVEN UP OLD POSITION ON QUESTION OF SHARING OF DEBT LIABILITY OF FORMER PAKISTAN, UNLESS SOME UNDERSTANDING ON DEFERRED IMPLEMENTATION BASIS HAS BEEN REACHED BETWEEN BANGLADESH AND US, WHICH VIRTUALLY CONTROLS DECISION OF WORLD BANK. OTHER POSSIBLE EXPLANATION IS THAT US WHICH IS STILL THE BIG BROTHER BEHIND PAKISTAN IN HER CONFLICT WITH BANGLADESH, MAY HAVE DECIDED NOT TO WOO BANGLADESH BEYOND A POINT AND USE AID AS BALANCING FACTOR FOR KEEPING THE TIE IN FACT WITH BANGLADESH.

H. IT IS IMPROBABLE, HOWEVER, THAT US WILL PERMIT THE WORLD BANK TO OPEN ANY LONG TERM COMMITMENT TOWARDS BANGLADESH BEFORE SECURING INTERESTS OF PAKISTAN. THAT MAKES IT LIKELY THAT AID TO BE COMMITTED TO US WOULD BE LIMITED AND OF SHORT TERM NATURE FOR PRESENT. THIS WOULD HAVE SOME ADDITIONAL ADVANTAGE FROM POINT OF AID- GIVERS, FOR ONCE THIS COUNTRY LAUNCHED A PLAN BASED ON SUCH ASSISTANCE IT WILL HAVE THE COMPULSIONS OF COMPLETING IT AT LATER STAGES, WHEN THE DONOR NATIONS WOULD WIELD THE COMMAND TRUE TO THE BENGALI TERM " MAHAJAN" (MONEYLENDER). END TEXT.
NEWBERRY

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 22 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973DACCA02270
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730550/aaaajned.tel
Line Count: 142
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 17 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17-Dec-2001 by shawdg>; APPROVED <08-Jan-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 980225
Subject: DEBT ISSUE - CONSORTIUM SOFTENING SEEN IN PRESS REPORT
TAGS: EAID, EFIN, BG, PK
To: EB
ISLAMABAD
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005